

ROUTING AND RECORD SHEET

SUBJECT: (Optional)

Foreign Ownership Policy

FROM: James H. McDonald
Director of Logistics

EXTENSION

NO.

OL 1 3250

DATE

4 August 1981

TO: (Officer designation, room number, and building)

DATE

RECEIVED

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OFFICER'S INITIALS

COMMENTS (Number each comment to show from whom to whom. Draw a line across column after each comment.)

1. Director of Security
4-E-60 Headquarters

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4 AUG 1981

MEMORANDUM FOR: Director of Security

FROM: James H. McDonald
Director of Logistics

SUBJECT: Foreign Ownership Policy

1. In recent years this Office has seen an increase in the number of American companies coming under foreign control or influence, either directly or through the acquisition of sufficient stock to allow foreign owner participation in the management of the company. Foreign ownership poses a serious problem in fulfilling Agency classified procurement requirements, especially when the contractor may be the sole source of special equipment or is a prized source of technical expertise.

2. Our concern, of course, is with the ability of the contractor to legally bar the foreign owner from accessing classified information. Unless the company and the foreign owner determine that it is in their interest to agree to establish a voting trust which will provide the degree of insulation deemed acceptable to us, there appear to be few, if any, alternatives available to the Agency except to terminate the contract and to restrict any future contracts only to totally unclassified procurements.

3. This is the course the Office of Logistics has been following, but the severe limitations it places on our procurement initiatives suggests that a more clearly defined policy needs to be developed within the Agency. We note that under Department of Defense (DOD) regulations, provision is made to approve American contractor facilities under Canadian or United Kingdom ownership when certain criteria can be met. Perhaps a similar solution could be offered under Agency policy. In part, our present dilemma results from a perception that there may be an over-reliance on DOD policies and procedures which may not be completely applicable to, or which would fully satisfy Agency requirements. Therefore, the establishment of an Agency policy on Foreign Ownership should greatly assist to remedy this problem.

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OL 1 3250

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4. We are mindful that certain legal conditions must be evident in any policies which may evolve and, to that end, have asked [redacted] Chief, Logistics and Procurement Law Division, OGC, to pursue the matter of foreign ownership with the General Counsel. It is my strong belief, however, that the parallel development of more precise security policy guidelines also is urgently needed at this time. I would appreciate having your views and assistance in developing a coordinated Agency position on this matter.

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[redacted]
James H. McDonald